Wake Forest Bancshares, Inc.

2021 Annual Report

CONTENTS

REPORT TO STOCKHOLDERS	1-2
SELECTED CONSOLIDATED FINANCIAL DATA	3
YIELDS AND COSTS OF FUNDS	4
INDEPENDENT AUDITORS' REPORT	5
CONSOLIDATED FINANCIAL STATEMENTS:	
Consolidated Statements of Financial Condition at September 30, 2021 and 2020	6
Consolidated Statements of Income for the years ended September 30, 2021 and 2020	7
Consolidated Statements of Comprehensive Income for the years ended September 30, 2021 and 2020	8
Consolidated Statements of Stockholders' Equity for the years ended September 30, 2021 and 2020	9-10
Consolidated Statements of Cash Flows for the years ended September 30, 2021 and 2020	11-12
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS	13-31
COMMON STOCK INFORMATION	32
CORPORATE INFORMATION	33

REPORT TO STOCKHOLDERS

The fiscal year ending September 30, 2021 was another challenging yet overall productive year for Wake Forest Bancshares, Inc. (the "Company"). The COVID-19 pandemic lingered throughout the year and continued to disrupt our local economy, but unlike the previous year when businesses struggled to remain open, many companies had difficulty hiring employees and supply chain issues created inventory shortages. However, the pandemic had very little effect on our local real estate markets and has yet to impact the credit quality of our loan portfolio. The most significant impact to our operations continues to be Federal Reserve monetary policies that have allowed interest rates to remain at historically low levels, causing our margins to narrow.

The Company reported profits of $1,235,550 or $1.13 per share for the current fiscal year. Despite the pandemic related obstacles, the Company's results exceeded our expectations based upon budgetary amounts established at the beginning of the year. The Company reported growth in total assets, loans, and deposits this year. We were pleased with our lending performance this past year particularly since the Company's loan portfolio was not impacted by the origination of any short term PPP or other pandemic related loans. In addition, the Company's operations continue to be positively impacted by the absence of nonperforming assets and its lower level of administrative costs.

The Federal Reserve has been very accommodating with its monetary policies over the past two years, decreasing rates by a combined 150 basis points during March 2020 as a result of the economic impact from the COVID-19 pandemic and has maintained interest rates at those levels through September 30, 2021. As a result, the Company's interest rate margin contracted from 3.69% during 2019 (pre-pandemic) to 3.06% and 3.23% for its current fiscal and prior year, respectively. The Company's yield on its interest earning assets decreased from 4.12% in the prior year to 3.54% this period. Because our loans and investments are generally shorter term and rate sensitive, our interest earning assets are much more susceptible to sizable and sudden rate movements. In comparison, our deposit portfolio has a considerable amount of certificates of deposit that generally do not react as quickly to rate movements. However, we were able to lower our average cost of funds from 1.16% in 2020 to 0.62% for our current fiscal year.

The bulk of the Company's real estate lending during the current year was primarily in our residential and construction loan categories. Those markets were surprisingly strong during the pandemic due in part to historically low mortgage rates. In addition, our real estate markets benefit because we are a part of the Research Triangle area which is consistently recognized as one of the top regions in the country for innovation, growth, economic activity and quality of life factors. Real estate sales, including the new homes market, remained resilient this year despite disruptions created by the pandemic not only due to abnormally low rates, but also because of rising home prices and extremely tight local housing inventories. The pandemic has yet to impact the credit quality of our loan portfolio, perhaps because requested loan modifications and pandemic related financial assistance in the form of stimulus and enhanced unemployment insurance payments may have masked any potential long term effects. Earlier forms of government assistance have ended as have the loan modifications we allowed to certain borrowers adversely and directly impacted by the pandemic. The Company will continue to evaluate the actual impact of the lingering pandemic on credit quality and consider any future adjustments to its loss allowances.

The lack of non-performing assets and delinquencies in general have been noteworthy and the absence of collection concerns and associated expense have undoubtedly contributed to the Company's performance. There were no non-performing loans or foreclosed assets at September 30, 2021. As a result, the Company determined that it did not need to add to its loan loss allowances this year. The Company's loan loss allowance amounted to approximately 2.06% of total loans outstanding at September 30, 2021, which Management feels is adequate to cover any loan issues now or in the immediate future.

The Company continues to remain well capitalized. With a Tier 1 capital leverage ratio of 24.00% at September 30, 2021, the Company is well in excess of regulatory requirements and the capital levels of most other community banks in our market. Due to our strong capital position and continued profitability, the Company was able to declare and pay cash dividends of $0.40 per share in 2021. Although future dividends will be dictated by current operational issues, we are very proud of the fact that the Company has been able to continue to pay dividends without interruption for the past twenty five years.

The Company remains optimistic about its future. The long-term fundamentals for our market areas are strong and should provide a base for continued profitability and growth. The Board and Management's primary commitment is to maximize shareholder value while continuing to serve as a hometown community-oriented financial institution. We encourage your comments and suggestions and we truly thank you for your continued support, business and your investment in Wake Forest Bancshares, Inc.

Respectfully,

Renee H. Shaw

Renee H. Shaw
President & Chief Executive Officer

WAKE FOREST BANCSHARES, INC.
SELECTED CONSOLIDATED FINANCIAL DATA

	September 30,				
	2021	2020	2019	2018	2017
Financial Condition Data:			(In Thousands)		
Total assets	$ 110,479	$ 107,452	$ 104,385	$ 103,854	$ 106,740
Investments (1)	37,995	36,274	32,591	37,625	48,516
Loans receivable, net	68,238	67,004	67,056	62,404	54,584
Deposits	82,734	80,010	77,716	78,023	81,401
Stockholders' equity	26,507	26,251	25,515	24,564	24,082

	Years Ended September 30,				
	2021	2020	2019	2018	2017
Operating Data:		(In Thousands, Except Per Share Data)			
Interest and dividend income	$ 3,768	$ 4,180	$ 4,678	$ 4,112	$ 3,703
Interest expense	509	898	947	757	714
Net interest income	3,259	3,282	3,731	3,355	2,989
Provision for (recovery of) loan losses	-	-	15	15	(160)
Noninterest income	87	102	94	97	95
Noninterest expense	1,754	1,881	1,700	1,706	1,724
Income before income taxes	1,592	1,503	2,110	1,731	1,520
Income tax expense	356	332	478	697	550
Net income	$ 1,236	$ 1,171	$ 1,632	$ 1,034	$ 970
Basic earnings per share	$ 1.13	$ 1.06	$ 1.47	$ 0.92	$ 0.85
Diluted earnings per share	1.13	1.06	1.47	0.92	0.85
Dividends per share	0.40	0.36	0.32	0.28	0.24
Dividend payout ratio	35.29%	33.79%	21.73%	30.48%	28.23%
Selected Other Data:					
Return on average assets (3)	1.13%	1.12%	1.57%	0.99%	0.92%
Return on average equity (3)	4.65%	4.51%	6.50%	4.27%	4.08%
Interest rate spread (3)	2.92%	2.96%	3.40%	3.07%	2.70%
Average equity to average assets (3)	24.09%	24.80%	24.09%	23.09%	22.48%
Net interest margin (3)	3.06%	3.23%	3.69%	3.27%	2.89%
Allowance for loan losses to nonperforming loans (2)	N/A	N/A	N/A	N/A	N/A
Nonperforming loans to total loans (2)	N/A	N/A	N/A	N/A	N/A
Allowance for loan losses to total loans	2.06%	2.11%	2.09%	2.22%	2.52%

(1) Includes interest earning deposits, bank certificate of deposits, FHLB stock, investment securities and marketable equity securities

(2) Nonperforming loans include mortgage loans delinquent more than 90 days and non-accrual loans. There were no nonperforming loans outstanding at any of the reporting periods presented above.

(3) Average balances are derived from month-end balances.

WAKE FOREST BANCSHARES, INC.
YIELDS AND COSTS OF FUNDS
Years Ended September 30, 2021 and 2020

	Year Ended September 30,									
	2021					2020				
Assets:		Average Balance		Interest	Average Yield/ Cost		Average Balance		Interest	Average Yield/ Cost
Interest-earning assets:										
Interest-earning deposits	$	17,660	$	35	0.20%	$	16,348	$	142	0.87%
Bank certificate of deposits		19,214		164	0.85%		16,434		284	1.73%
Investment securities		1,334		8	0.60%		944		19	2.01%
Loans receivable (1)		68,382		3,561	5.21%		67,735		3,735	5.51%
Total interest-earning assets		106,590	$	3,768	3.54%		101,461	$	4,180	4.12%
Non-interest-earning assets		3,458					3,241			
Total	$	110,048				$	104,702			
Liabilities and stockholders' equity:										
Interest-bearing liabilities:										
Passbook accounts	$	3,338	$	2	0.06%	$	3,040	$	3	0.10%
NOW & MMDA accounts		42,511		51	0.12%		35,711		182	0.51%
Certificates of deposit		36,336		456	1.25%		38,730		713	1.84%
Total interest-bearing liabilities		82,185	$	509	0.62%		77,481	$	898	1.16%
Non-interest-bearing liabilities		1,274					1,250			
Stockholders' equity		26,589					25,971			
Total	$	110,048				$	104,702			
Net interest income and interest rate spread (2)			$	3,259	2.92%			$	3,282	2.96%
Net interest margin (3)					3.06%					3.23%
Ratio of interest-earning assets to interest-bearing liabilities					129.70%					130.95%

(1) Balance is net of deferred loan fees and loans in process. Non-accrual loans, if any, are included in the balances.

(2) Interest rate spread represents the difference between the average yield on interest-earning assets and the average cost of funds.

(3) Net interest margin represents net interest income divided by average interest-earning assets.

Independent Auditors' Report

To the Board of Directors and Stockholders
Wake Forest Bancshares, Inc. and Subsidiary
Wake Forest, North Carolina

We have audited the accompanying consolidated financial statements of Wake Forest Bancshares, Inc. and Subsidiary (the "Company"), which comprise the consolidated statements of financial condition as of September 30, 2021 and 2020, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Wake Forest Bancshares, Inc. and Subsidiary as of September 30, 2021 and 2020, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Dixon Hughes Goodman LLP

Raleigh, NC
December 16, 2021

WAKE FOREST BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
September 30, 2021 and 2020

ASSETS	2021	2020
Cash:		
Interest-earning deposits	$ 17,122,350	$ 16,984,100
Noninterest-earning deposits	1,475,100	1,404,100
	18,597,450	18,388,200
Certificate of deposits in other banks	19,166,250	18,181,000
Investment securities, available for sale (Note 2)	1,645,150	1,000,800
Marketable equity securities (Note 2)	6,700	15,600
FHLB stock, at cost (Note 2)	54,600	91,800
Loans receivable, net of allowance for loan losses of $1,434,450 in 2021 and 2020 (Note 3)	68,237,600	67,004,000
Accrued interest receivable	203,700	177,750
Property and equipment, net (Note 5)	283,000	309,050
Bank owned life insurance (Note 7)	1,795,150	1,747,300
Deferred income taxes (Note 11)	436,250	430,000
Prepaid expenses and other assets	53,500	106,850
Total assets	$ 110,479,350	$ 107,452,350
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits (Note 8)	$ 82,733,550	$ 80,010,450
Accrued interest on deposits	2,100	1,750
Accounts payable and accrued expenses	718,750	701,100
Dividends payable	107,000	98,800
Deferred gain on sale of foreclosed real estate (Note 6)	318,100	318,100
Redeemable common stock held by the ESOP, net of unearned ESOP shares (Note 10)	92,750	70,700
Total liabilities	83,972,250	81,200,900
Commitments and contingencies (Note 13)		
Stockholders' Equity (Note 12):		
Preferred stock, authorized 1,000,000 shares, none issued	-	-
Common stock, $.01 par value, authorized 5,000,000 shares; issued 1,253,948 shares in 2021 and 2020	12,550	12,550
Additional paid-in-capital	5,779,500	5,779,500
Accumulated other comprehensive (loss) income	(3,750)	650
Retained earnings, substantially restricted (Note 12)	23,783,900	23,006,400
Common stock in treasury, at cost (183,902 shares in 2021 and 156,158 shares in 2020)	(3,065,100)	(2,547,650)
Total stockholders' equity	26,507,100	26,251,450
Total liabilities and stockholders' equity	$ 110,479,350	$ 107,452,350

See Notes to Consolidated Financial Statements.

WAKE FOREST BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
Years Ended September 30, 2021 and 2020

	2021	2020
Interest and dividend income:		
Loans	$ 3,560,450	$ 3,734,950
Investment securities	8,050	18,750
Bank certificate of deposits	163,800	283,650
Interest-earning deposits	35,300	142,800
	3,767,600	4,180,150
Interest expense:		
Deposits	509,050	898,250
	509,050	898,250
Net interest income before provision for loan losses	3,258,550	3,281,900
Provision for loan losses (Note 3)	-	-
Net interest income after provision for loan losses	3,258,550	3,281,900
Noninterest income:		
Service fees	46,950	43,000
Income from bank owned life insurance	47,850	47,500
(Loss) gain in value of equity securities	(8,900)	10,650
Other income	950	1,150
	86,850	102,300
Noninterest expense:		
Compensation and benefits (Notes 9 and 10)	1,111,250	1,103,250
Occupancy	56,100	61,650
Federal insurance premiums and operating assessments	43,050	25,550
Data processing and outside service fees	184,150	292,600
Other operating expense	359,450	398,050
	1,754,000	1,881,100
Income before income taxes	1,591,400	1,503,100
Income taxes (Note 11):		
Current	360,850	338,050
Deferred	(5,000)	(5,800)
	355,850	332,250
Net income	$ 1,235,550	$ 1,170,850
Basic earnings per share	$ 1.13	$ 1.06
Diluted earnings per share	$ 1.13	$ 1.06
Dividends per share	$ 0.40	$ 0.36

See Notes to Consolidated Financial Statements.

WAKE FOREST BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years Ended September 30, 2021 and 2020

	2021	2020
Net income	$ 1,235,550	$ 1,170,850
Other comprehensive income (loss):		
Investment securities available for sale:		
Unrealized holding (losses)	(5,650)	(24,050)
Tax effect of unrealized (gains) losses	1,250	3,100
	(4,400)	(20,950)
Total comprehensive income	$ 1,231,150	$ 1,149,900

See Notes to Consolidated Financial Statements.

WAKE FOREST BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Years Ended September 30, 2021 and 2020

	Outstanding Shares of Common Stock		Common Stock		Additional Paid in Capital
Balance at September 30, 2019	1,102,052	$	12,550	$	5,779,500
Comprehensive income for 2020	-		-		-
Market value adjustment for redeemable common stock held by ESOP	-		-		-
Cash dividends ($0.36 per share)	-		-		-
Treasury shares sold	350				
Purchase of 4,612 shares for the Treasury	(4,612)		-		-
Balance at September 30, 2020	1,097,790		12,550		5,779,500
Comprehensive income for 2021	-		-		-
Market value adjustment for redeemable common stock held by ESOP	-		-		-
Cash dividends ($0.40 per share)	-		-		-
Treasury shares sold	500				
Purchase of 28,244 shares for the Treasury	(28,244)		-		-
Balance at September 30, 2021	1,070,046	$	12,550	$	5,779,500

See Notes to Consolidated Financial Statements.

WAKE FOREST BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Years Ended September 30, 2021 and 2020

Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Treasury Stock Acquired	Total
$ 21,600	$ 22,178,950	$ (2,477,750)	$ 25,514,850
(20,950)	1,170,850	-	1,149,900
-	52,250	-	52,250
-	(395,650)	-	(395,650)
-	-	6,800	6,800
-	-	(76,700)	(76,700)
650	23,006,400	(2,547,650)	26,251,450
(4,400)	1,235,550	-	1,231,150
-	(22,050)	-	(22,050)
-	(436,000)	-	(436,000)
-	-	8,950	8,950
-	-	(526,400)	(526,400)
$ (3,750)	$ 23,783,900	$ (3,065,100)	$ 26,507,100

WAKE FOREST BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended September 30, 2021 and 2020

		2021		2020
Cash Flows From Operating Activities				
Net income	$	1,235,550	$	1,170,850
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation		41,300		41,050
Loss on disposal of property and equipment		350		-
(Gain) loss in fair value of marketable equity securities		8,900		(10,650)
Deferred income taxes		(5,000)		(5,800)
Increase in bank owned life insurance contracts		(47,850)		(47,500)
Changes in assets and liabilities:				
(Increase) decrease in:				
Accrued interest receivable		(25,950)		44,350
Prepaid expenses and other assets		53,350		(22,150)
Increase (decrease) in:				
Accounts payable and accrued expenses		18,000		77,950
Net cash provided by operating activities	$	1,278,650	$	1,248,100
Cash Flows From Investing Activities				
Principal collected on loans	$	40,521,400	$	42,474,300
Purchase of participation loans		(152,500)		(150,000)
Loans originated		(41,602,500)		(42,272,700)
Purchase of certificate of deposits in other banks		(11,442,250)		(14,196,000)
Maturity of certificate of deposits in other banks		10,457,000		12,200,000
Purchase of investment securities		(1,650,000)		(1,000,000)
Maturities of investment securities		1,000,000		800,000
(Purchase) redemption of FHLB of Atlanta Stock		37,200		2,200
Purchases of property and equipment		(15,600)		(27,550)
Net cash used in investing activities	$	(2,847,250)	$	(2,169,750)

See Notes to Consolidated Financial Statements.

WAKE FOREST BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended September 30, 2021 and 2020

		2021		2020
Cash Flows From Financing Activities				
Cash dividends paid	$	(427,800)	$	(385,000)
Purchase of treasury stock		(526,400)		(76,700)
Proceeds from issuance of treasury stock		8,950		6,800
Net increase in deposits		2,723,100		2,294,650
Net cash provided by financing activities		1,777,850		1,839,750
Net increase in cash		209,250		918,100
Cash:				
Beginning		18,388,200		17,470,100
Ending	$	18,597,450	$	18,388,200
Supplemental Disclosures of Cash Flow Information				
Cash payments for:				
Interest	$	508,700	$	899,350
Income taxes	$	350,000	$	337,500
Supplemental Schedule of Noncash Investing and Financing Activities:				
(Increase) decrease in fair value of ESOP obligation	$	22,050	$	52,250
Change in unrealized loss on available for sale securities, net of tax effect	$	(4,400)	$	(20,950)

See Notes to Consolidated Financial Statements.

Note 1. Nature of Business and Significant Accounting Policies

Wake Forest Bancshares, Inc. (the "Company") is the parent stock holding company of Wake Forest Federal Savings & Loan Association (the "Association" or "Wake Forest Federal"), its only subsidiary. The Company was formed in 1999 for the purpose of becoming a savings and loan holding company and had no prior operating history. The Company conducts no business other than holding all of the stock in the Association, investing dividends received from the Association, repurchasing its common stock from time to time, and distributing dividends on its common stock to its shareholders. The Association's principal activities consist of obtaining savings deposits and providing mortgage credit to customers in its primary market area, the counties of Wake and Franklin, North Carolina. The Company's primary regulator is the Federal Reserve and the Association's primary regulator is the Comptroller of the Currency ("OCC"). The Association's deposits are insured by the Federal Deposit Insurance Corporation ("FDIC").

The Company is majority owned by Wake Forest Bancorp, M.H.C., (the "MHC") a mutual holding company. Members of the MHC consist of depositors and certain borrowers of the Association, who have the sole authority to elect the board of directors of the MHC. The MHC's principal assets consist of 635,000 shares of the Company's common stock and deposits at the Association. The MHC, which by law must own in excess of 50% of the stock of the Company, currently has an ownership interest of 59.4% of the Company. The mutual holding company is registered as a savings and loan holding company and is subject to regulation, examination, and supervision by the Federal Reserve.

A summary of the Company's significant accounting policies follows:

Basis of financial statement presentation: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts or revenues and expenses during the reporting period. Actual results could differ from those estimates.

Consolidation: The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Wake Forest Federal. All significant inter-company accounts and transactions have been eliminated in consolidation.

Cash and cash equivalents: For purposes of reporting cash flows, the Company considers all interest-bearing deposits with maturities of less than three months at acquisition and non-interest-bearing deposits to be cash and cash equivalents. At times, the Association maintains deposits in correspondent banks in amounts that may be in excess of the FDIC insurance limit.

Certificates of deposit in other banks: The Company carries its investment in certificates of deposit in other banks at cost because the CDs were purchased directly from the banks, are not marketable, and are redeemable at their original cost at maturity. Redemption prior to maturity can result in a penalty of loss of interest but not principal.

Investment securities: The Company carries its investments at fair market value or amortized cost depending on its classification of such securities. Classification of securities and the Company's accounting policies are as follows:

Securities held to maturity: Securities classified as held to maturity are those debt securities the Company has both the intent and ability to hold to maturity regardless of changes in market conditions, liquidity needs or changes in general economic conditions. These securities are carried at amortized cost. The Company currently has no securities which are classified as held to maturity.

Securities available for sale: Securities classified as available for sale are those debt securities that the Company intends to hold for an indefinite period of time but not necessarily to maturity. Any decision to sell a security classified as available for sale would be based on various factors, including significant movements in interest rates, changes in the maturity mix of its securities, liquidity needs and other significant factors. Securities available for sale are carried at fair value. Unrealized gains and losses on debt securities are reported as a separate component of equity, net of related tax effects. Realized gains and losses are included in earnings.

Securities held for trading: Trading securities are held in anticipation of short-term market gains. Such securities are carried at fair value with realized and unrealized gains and losses included in earnings. The Company currently has no securities which are classified as trading.

Marketable Equity Securities: Marketable equity securities are carried at fair value with changes in fair value included in income.

Loans receivable and fees: Loans receivable are stated at unpaid principal balances, less the allowance for loan losses and net deferred loan origination fees. The Association's loan portfolio consists principally of mortgage loans collateralized by first trust deeds on single family residences, other residential property, commercial property and land. The Association receives fees for originating mortgage loans. The Association defers all loan fees less certain direct costs as an adjustment to yield with subsequent amortization into income over the life of the related loan.

Allowance for loan losses: The allowance for loan losses is established for probable losses estimated to have occurred and risks inherent in the loan portfolio through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the un-collectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. The allowance for loan losses is evaluated on a regular basis by management and is based upon management’s periodic review of the collectability of specific loans, historical loan loss experience and credit risk trends, loan concentrations, current loan portfolio quality, the estimated value of any underlying collateral on impaired loans, and prevailing economic and regulatory conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available and in part on factors beyond the Association’s control, including changes in interest rates and the view of regulatory authorities toward loan classifications.

The Association’s allowance for loan losses consists of three elements: (1) specific valuation allowances determined in accordance with ASC Topic 310 “Receivables” on identifiable problem or impaired loans (2) valuation allowances determined in accordance with ASC Topic 450 “Contingencies” based upon historical loan loss experience for pools of similar loans, adjusted as necessary to reflect current conditions and (3) general valuation allowances determined in accordance with ASC Topic 450 based on qualitative risk factors both internal and external to the Association.

A loan is considered impaired when, based on current information and events, it is probable that the Association will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. A loan whose delinquency is considered temporary is not necessarily impaired. An allowance is recorded if the present value of the loan's future cash flows, discounted using the loan's effective interest rate, is less than the carrying value of the loan. An impaired loan can also be valued at its fair value in the market place or on the basis of its underlying collateral if the loan is primarily collateral dependent. If foreclosure is imminent, and the loan is collateral dependent, the loan is valued based upon the net fair value of the underlying collateral.

Specific valuation allowances are established based upon the regular analysis and evaluation of individual problem loans. Impaired loans are classified based upon our internal risk grading process which involves our assessment of the borrower’s ability to repay, the value of the underlying collateral, the economic environment of the industry in which the borrower operates, and other factors affecting the collectability of specific loans with higher risk characteristics. All other loans with unidentified impairment issues are pooled and segmented by major loan types (single-family residential properties, construction loans, commercial real estate, land, etc.). Historical loan loss rates for these categories are then generated by capturing historical loan losses net of recoveries over the latest three year period while utilizing the latest ten year period as a minimum loan loss rate if it generates a higher charge-off experience. These loss rates are then applied to current outstanding balances of similar pooled loans to arrive at historical valuation allowances.

General valuation allowances are provided based upon qualitative factors that may affect the credit worthiness of the Association’s loan portfolios that have not otherwise been specifically evaluated for loss. Unallocated internal and external factors are used to estimate inherent loss potential in the Association’s loan portfolios. Some risks are external factors that are largely beyond the Association’s control such as local economic conditions, the status of the housing market, market interest rates and regional unemployment statistics. Other risk factors are specific to our institution and we have consciously assumed the risk. These internal risks include geographical and lending concentrations, delinquency trends, large balance or highly leveraged credit relationships, performing loans with known collateral deficiencies, loans modified due to the COVID-19 pandemic, and the quality of our credit review practices.

Property, equipment and depreciation: Property and equipment are stated at cost less accumulated depreciation. Depreciation is computed primarily by use of the straight-line method over depreciable lives of 3-7 years for furniture and equipment and up to 40 years for buildings and improvements.

Foreclosed real estate: Foreclosed real estate acquired through, or in lieu of, loan foreclosure is initially recorded at fair value at the date of foreclosure establishing a new cost basis. After foreclosure, valuations are periodically performed by management and the real estate is carried at the lower of cost or fair value minus costs to sell. Revenue and expenses from holding or disposing of the properties and additions or recoveries to the valuation allowance are included in earnings.

Deposits: Eligible deposits are insured up to $250,000 ($500,000 for joint accounts) by the FDIC.

Off-balance-sheet risk and credit risk: The Association is a party to financial instruments with off-balance-sheet risk such as commitments to extend credit. Management assesses the risk related to these instruments for potential loss. The Association lends primarily on one-to-four family residential properties throughout its primary lending area, Wake and Franklin counties of North Carolina.

Interest income: Interest income is recorded as earned on an accrual basis. The Association discontinues the recognition of interest income when, in the opinion of management, collection of such interest is doubtful. It is the general policy of the Association to discontinue the accrual of interest on loans, including loans impaired when principal or interest payments are contractually delinquent 90 days or more, unless collectability is assured. Any unpaid amounts previously accrued on these loans are reversed from income, and thereafter interest is recognized only to the extent payments are received.

Income taxes: Deferred income taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are either eliminated or reduced by valuation allowances if in the opinion of management it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment. The Company continually monitors and evaluates the potential impact of current events on the estimates used to establish income tax expense and income tax liabilities. On a periodic basis, the Company evaluates its income tax positions based on current tax law, positions taken by various tax authorities within the jurisdictions that the Company is required to file income tax returns, as well as any potential or pending audits or assessments by such tax authorities. The Company did not recognize or accrue any interest or penalties related to income taxes during the years ended September 30, 2021 and 2020. The Company did not have an accrual for uncertain tax positions because it believes its tax positions are based on widely understood administrative practices and procedures that would be sustained upon examination. It is the Company's policy to recognize any income tax related interest and penalties as components of income tax expense. Income tax returns for all years 2018 and thereafter are subject to possible future examinations by tax authorities.

Earnings per share: The Company provides for a dual presentation of basic and diluted earnings per share (EPS) with a reconciliation of the numerator and denominator of the EPS computations. Basic earnings per share amounts are based on the weighted average shares of common stock outstanding. Diluted earnings per share assume the conversion, exercise or issuance of all potential common stock instruments such as options, unless the effect is to reduce a loss or increase earnings per share. No adjustments were required to net income for any period presented in the computation of diluted earnings per share and there were no differences in basic and diluted earnings per share in 2021 or 2020. The weighted average numbers of shares outstanding for earnings per share computation was 1,094,576 and 1,099,533 in 2021 and 2020, respectively.

Stock compensation plans: The Company recognizes the fair value of equity instruments as an expense in the financial statements as services are performed or vesting occurs.

Subsequent events: Management has evaluated subsequent events through December 16, 2021, the date the financial statements were available to be issued.

Fair value measurement: Fair value is a market-based measurement and is defined as the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date. The transaction to sell the asset or transfer the liability is a hypothetical transaction at the measurement date, considered from the perspective of a market participant that holds the assets or owes the liability. In general, the transaction price will equal the exit price and, therefore, represent the fair value of the asset or liability at initial recognition. In determining whether a transaction price represents the fair value of the asset or liability at initial recognition, the Company is required to consider factors specific to the transaction and the asset or liability, the principal or most advantageous market, and the participants with whom the Company would transact in the market. In order to determine the fair value, the Company must determine the highest and best use, the principal market, and market participants. These determinations allow the Company to define the inputs for fair value and level of hierarchy. Outlined below is the application of the fair value hierarchy.

- Level 1 –The asset or liability has available quoted prices for identical assets or liabilities in active markets. An active market is a marketplace with sufficient frequency and volume to provide pricing information on an ongoing basis. As of September 30, 2021, the Company carried certain investment securities at fair value hierarchy Level 1.
- Level 2 – The asset or liability has available quoted prices for similar assets and liabilities in active markets, and inputs that are observable for substantially the full term of the financial instrument. As of September 30, 2021, the Company had no assets or liabilities carried at fair value hierarchy Level 2.
- Level 3 – The asset or liability has no observable market inputs that are significant to the fair value measurement and fair value is supported by the entity's own assumptions. As of September 30, 2021, the Company had no assets or liabilities carried at fair value hierarchy Level 3.

The Company measures certain assets at fair value on a recurring and non-recurring basis, as described below.

Investment and Marketable equity securities: Investment securities consist of US Government agency obligations and FHMLC stock and are recorded at fair value on a recurring basis. These investments are considered Level 1 securities because their fair value measurements are based upon quoted market prices traded by dealers or brokers in active over-the-counter markets and exchanges.

Loans: The Company does not record loans at fair value on a recurring basis. However, loans for which it is probable that the payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired if such payment delinquencies are not considered temporary. The fair value of impaired loans is estimated using the underlying collateral value or the present value of discounted cash flows. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected cash flows or collateral value exceed the recorded investments in such loans. Impaired loans where an allowance is established based on the fair value of collateral require classification in the fair value hierarchy. At September 30, 2021 and 2020, the Company had no impaired loans.

Foreclosed real estate: Foreclosed real estate is adjusted to fair value upon transfer of the loans to foreclosed real estate. Subsequently, foreclosed real estate is carried at fair value based upon independent market prices, appraised values of the collateral or management's estimation of the value of the collateral. When the fair value of the collateral is based on an observable market price or a current appraised value that relies upon comparable values from identical sources, the Company records the foreclosed real estate as non-recurring Level 2. When a current appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company records the foreclosed real estate as nonrecurring Level 3. At September 30, 2021 and 2020, the Company had no foreclosed real estate.

Presented below is information about assets measured at fair value at September 30, 2021 and 2020:

		Fair Value Measurements using:		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Signficant Unobservable Inputs (Level 3)
At September 30, 2021:				
US Government agency securities	$ 1,645,150	$ 1,645,150	$ -	$ -
FHLMC stock	6,700	6,700	-	-
Foreclosed real estate	-	-	-	-
Impaired loans	-	-	-	-
At September 30, 2020:				
US Government agency securities	$ 1,000,800	$ 1,000,800	$ -	$ -
FHLMC stock	15,600	15,600	-	-
Foreclosed real estate	-	-	-	-
Impaired loans	-	-	-	-

Fair value of financial instruments: Estimated fair values have been determined by the Company using available market information and appropriate valuation methodologies. However, considerable judgment is required to develop the estimates of fair value. Accordingly, the estimates for the fair value of the Company's financial instruments are not necessarily indicative of the amounts the Company could realize in a current market exchange and do not represent the underlying value of the Company. The use of different market assumptions or estimation methodologies may have a material effect on the fair value amounts. The fair value estimates are based on pertinent information available to management as of September 30, 2021. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of these financial statements since that date, and therefore, current estimates of fair value may differ significantly from the amounts presented herein. The following methods and assumptions were used by the Company in estimating its fair value disclosures for financial instruments:

Cash, certificate of deposits in other banks and accrued interest receivable: The carrying amounts (cost) approximate these assets' fair values.

Investment securities and marketable equity securities: The fair values of investment securities are determined based on quoted market values. For the Association's investment in Federal Home Loan Bank stock, no ready market exists and it has no quoted market value. For disclosure purposes, such stock is assumed to have a fair value which is equal to its cost.

Loans receivable: The valuation of loans is based upon an exit price notion that uses a discounted cash flows technique to calculate the present value of expected future cash flows for all loans except short-term construction loans, home equity loans and prime-based real estate loans which were assumed to be equal to their recorded amounts because such loans have relatively short terms and adjust to market rates as prime changes. The valuation method also incorporates other factors, such as enhanced credit risk, illiquidity risk and other market factors that sometimes exist in exit prices in dislocated markets. The credit risk and liquidity risk assumptions used are intended to approximate the fair value that a market participant would realize in a hypothetical orderly transaction.

Bank owned life insurance. Bank owned life insurance is not a marketable instrument and its fair value is considered to be equal to its redeemable value, or its cash surrender value.

Deposits: The fair value of deposits with no stated maturities is estimated to be equal to the amount payable on demand. The fair value of certificates of deposit is based upon the discounted value of future contractual cash flows. The discount rate is estimated using rates offered for deposits of similar remaining maturities.

Off-balance-sheet commitments: The Association's commitments, which consist entirely of loan commitments, are either short-term in nature or subject to immediate re-pricing and no fair value has been assigned to these off-balance-sheet items.

Accrued Interest Payable and Dividends Payable: The fair value of accrued interest and dividends payable is assumed to equal to its recorded amount because of the short term nature of the liability.

The following table presents the carrying amounts and estimated fair values of the Company's financial instruments at September 30, 2021 and 2020:

	2021		2020	
Financial assets:	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	$ 18,597,450	$ 18,597,450	$ 18,388,200	$ 18,388,200
Certificate of deposits in other banks	19,166,250	19,166,250	18,181,000	18,181,000
Investment and marketable securities	1,651,850	1,651,850	1,016,400	1,016,400
FHLB stock	54,600	54,600	91,800	91,800
Loans receivable, net of loss allowance	68,237,600	69,289,600	67,004,000	68,048,000
Bank owned life insurance	1,795,150	1,795,150	1,747,300	1,747,300
Accrued interest receivable	203,700	203,700	177,750	177,750
Financial liabilities:				
Deposits	82,733,550	82,992,100	80,010,450	80,499,100
Accrued interest payable	2,100	2,100	1,750	1,750
Dividends payable	107,000	107,000	98,800	98,800

Future Reporting Requirements:

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments,* guidance to change the accounting for credit losses and modify the impairment model for certain debt securities. ASU 2016-13 requires an entity to utilize a new impairment model known as the current expected credit loss ("CECL") model to estimate its lifetime "expected credit loss" and record an allowance that, when deducted from the amortized cost basis of the financial asset, presents the net amount expected to be collected on the financial asset. The CECL model is expected to result in earlier recognition of credit losses. ASU 2016-13 also requires new disclosures for financial assets measured at amortized cost, loans and available-for-sale debt securities. The updated guidance is effective for interim and annual reporting periods beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted. Entities will apply the standard's provisions as a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is adopted. On October 16, 2019, the FASB voted to delay implementation of CECL until years beginning after December 15, 2022 for certain entities, including public business entities such as the Company. The Company is still assessing the impact that this new guidance will have on its consolidated financial statements.

In August 2018, the FASB amended ASU 2018-13 - *Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement* topic of the Accounting Standards Codification. The amendments remove, modify, and add certain fair value disclosure requirements based on the concepts in the FASB Concepts Statement, *Conceptual Framework for Financial Reporting—Chapter 8: Notes to Financial Statements*. The amendments are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted. An entity is permitted to early adopt any removed or modified disclosures upon issuance of this ASU and delay adoption of the additional disclosures until their effective date. These amendments did not have a material effect on the Company's consolidated financial statements.

Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies are not expected to have a material impact on the Company's financial position, results of operations and cash flows.

From time to time the FASB issues exposure drafts for proposed statements of financial accounting standards. Such exposure drafts are subject to comment from the public, to revisions by the FASB and to final issuance by the FASB as statements of financial accounting standards. Management considers the effect of the proposed statements on the consolidated financial statements of the Company and monitors the status of changes to and proposed effective dates of exposure drafts.

Note 2. Investment Securities

Investment securities consist of available for sale debt securities and FHLMC stock. FHLMC stock with a cost basis of $1,750 and a fair market value of $6,700 and $15,600 at September 30, 2021 and 2020, respectively, was presented as marketable equity securities in the statement of financial condition. The amortized cost, fair market value and gross unrealized gains and losses of the Association's available for sale investment securities at September 30, 2021 and 2020 are as follows:

	2021			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Market Value
Available for sale securities:				
US Government agency securities	$ 1,650,000	$ -	$ 4,850	$ 1,645,150
	$ 1,650,000	$ -	$ 4,850	$ 1,645,150

	2020			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Market Value
Available for sale securities:				
US Government agency securities				
	$ 1,000,000	$ 800	$ -	$ 1,000,800
	$ 1,000,000	$ 800	$ -	$ 1,000,800

There were no sales of investment securities during 2021 or 2020.

The change during 2021 and 2020 in accumulated other comprehensive income, which consists solely of net unrealized gains and losses associated with investment securities, is as follows:

	2021	2020
Accumulated other comprehensive income, beginning of year	$ 650	$ 21,600
Change in unrealized losses, net of tax effect of $1,250 in 2021 and $3,100 in 2020	(4,400)	(20,950)
Accumulated other comprehensive income, end of year	$ (3,750)	$ 650

The Association, as a member of the Federal Home Loan Bank (FHLB) system, maintains an investment in capital stock of the FHLB of Atlanta. No ready market exists for the bank stock and its market value is equal to its cost due to the redemptive provisions of the FHLB of Atlanta. During 2021 and 2020, FHLB stock with a cost basis of $37,200 and $2,200, respectively, was redeemed at par by the FHLB of Atlanta.

US Government agency securities with an amortized cost of $1,650,000 are pledged to secure public deposits at September 30, 2021. US Government agency securities at September 30, 2021 mature as follows but may be called earlier by the issuer:

	Amortized Cost	Estimated Market Value
Due in one through three years	$ 150,000	$ 150,050
Due in four through five years	500,000	497,250
Due in six years	1,000,000	997,850
	$ 1,650,000	$ 1,645,150

Note 3. Loans Receivable

Loans receivable consist of the following:	2021	2020
Single family, one-to-four units	$ 35,342,550	$ 34,556,050
Multifamily, residential	984,150	869,050
Commercial real estate	6,014,750	6,733,250
Churches	5,985,800	3,236,800
Land	5,862,600	6,106,000
Residential construction	28,840,850	22,457,550
Commercial construction	872,500	4,420,000
Equity line mortgages	2,261,250	1,891,000
Loans on deposit accounts	423,900	513,300
	86,588,350	80,783,000
Undisbursed portion of construction loans	(16,729,650)	(12,165,450)
Allowance for loan losses	(1,434,450)	(1,434,450)
Deferred loan fees	(186,650)	(179,100)
	(18,350,750)	(13,779,000)
	$ 68,237,600	$ 67,004,000

The change in the Association's allowance for loan losses is as follows for the years ended September 30, 2021 and 2020:

	2021	2020
Balance, beginning of year	$ 1,434,450	$ 1,434,450
Provision for loan losses	-	-
Charge-offs	-	-
Recoveries	-	-
Balance, end of year	$ 1,434,450	$ 1,434,450

The following is an analysis of activity in the allowance for loan losses by loan portfolio segment for the years indicated:

Year Ended September 30, 2021:

	Residential	Construction	Home Equity	Commercial Real Estate	Churches	Land	Loans on Deposits	Total
Balance, beginning	$ 284,050	$ 295,800	$ 9,450	$ 389,550	$ 113,300	$342,300	$ -	$1,434,450
Provision-loan losses	(6,550)	(21,200)	1,850	(11,250)	36,350	800	-	-
Charge-offs	-	-	-	-		-	-	-
Recoveries	-	-	-	-		-	-	-
Balance, ending	$ 277,500	$ 274,600	$ 11,300	$ 378,300	$ 149,650	$343,100	$ -	$1,434,450

Year Ended September 30, 2020:

	Residential	Construction	Home Equity	Commercial Real Estate	Churches	Land	Loans on Deposits	Total
Balance, beginning	$ 268,650	$ 283,050	$ 18,100	$ 380,950	$ 122,300	$361,400	$ -	$1,434,450
Provision-loan losses	15,400	12,750	(8,650)	8,600	(9,000)	(19,100)	-	-
Charge-offs	-	-	-	-		-	-	-
Recoveries	-	-	-	-		-	-	-
Balance, ending	$ 284,050	$ 295,800	$ 9,450	$ 389,550	$ 113,300	$342,300	$ -	$1,434,450

As of September 30, 2021:	Residential	Construction	Home Equity	Commercial Real Estate	Churches	Land	Loans on Deposits	Total
Portion of ending balance:								
Individually evaluated for Impairment	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Collectively evaluated for Impairment	$ 277,500	$ 274,600	$ 11,300	$ 378,300	$ 149,650	$ 343,100	$ -	$ 1,434,450
Total loan loss allowances	$ 277,500	$ 274,600	$ 11,300	$ 378,300	$ 149,650	$ 343,100	$ -	$ 1,434,450

As of September 30, 2020:	Residential	Construction	Home Equity	Commercial Real Estate	Churches	Land	Loans on Deposits	Total
Portion of ending balance:								
Individually evaluated for Impairment	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Collectively evaluated for Impairment	$ 284,050	$ 295,800	$ 9,450	$ 389,550	$ 113,300	$ 342,300	$ -	$ 1,434,450
Total loan loss allowances	$ 284,050	$ 295,800	$ 9,450	$ 389,550	$ 113,300	$ 342,300	$ -	$ 1,434,450

The following segregates total loans by portfolio segment and impairment methodology as of September 30, 2021 and 2020:

	Residential	Construction	Home Equity	Commercial Real Estate	Churches	Land	Loans on Deposits	Total
September 30, 2021:								
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Collectively evaluated for impairment	$ 36,326,700	$ 12,983,700	$ 2,261,250	$ 6,014,750	$ 5,985,800	$ 5,862,600	$ 423,900	$ 69,858,700
Total	$ 36,326,700	$ 12,983,700	$ 2,261,250	$ 6,014,750	$ 5,985,800	$ 5,862,600	$ 423,900	$ 69,858,700
September 30, 2020:								
Individually evaluated for impairment	$ -	$ -	$ -	$ -		$ -	$ -	$ -
Collectively evaluated for impairment	$ 35,425,100	$ 14,712,100	$ 1,891,000	$ 6,733,250	$ 3,236,800	$ 6,106,000	$ 513,300	$ 68,617,550
Total	$ 35,425,100	$ 14,712,100	$ 1,891,000	$ 6,733,250	$ 3,236,800	$ 6,106,000	$ 513,300	$ 68,617,550

The “Residential” category in the tables above includes both “single family, one to four units” and “multi-family, residential” loans. The “Construction” category in the tables above includes both “residential construction” and “commercial construction” loans.

Loans are evaluated for credit quality on a recurring basis and the composition of the loans outstanding at September 30, 2021 and 2020 by credit quality indicator is presented below. The credit quality indicators are the same for each portfolio segment.

Loan Origination/Risk Management: The Association has certain lending policies and procedures in place that are designed to enhance the profitability of our lending operations within an acceptable level of risk. Management and the Board of Directors review these policies and procedures on a regular basis. Ongoing monitoring related to loan production, loan quality, concentrations of credit, and loan performance are critical functions of the Association.

Lending concentrations derived from significant borrowing relationships also have a material effect on the qualitative factors that influence the credit risks associated with the size and scope of the Association's loan loss allowances. The Association has several large lending relationships and the Association quantifies that concentration risk by factoring in qualitative factors resulting in the allocation of additional loan loss allowances established to account for these qualitative considerations. The Association's loan activities are segmented into various lending categories. Such lending diversification allows the Association to mitigate risk associated with changing economic conditions.

Residential mortgage lending has historically been the Association's primary business line. The Association originates both owner occupied single family mortgage loans as well as loans on residential investment properties. Substantially all such lending is located in our target markets, Wake and Franklin counties. Residential mortgages must meet loan-to-value, debt ratio, and other underwriting guidelines. Local economic conditions, including labor markets, play a significant role in the risk characteristics associated with residential lending.

Commercial real estate lending is also a financing segment for the Association. The majority of our commercial real estate loans are owner occupied by small business owners. These loans are underwritten based upon the cash flow potential of the borrower as well as the appraised value of collateral property. Underwriting for this type of lending is often driven by knowledge of the customer base, the reputation and history of the business, as well as the numerical debt coverage ratios. Commercial real estate mortgages are typically larger loans and may be more adversely affected by local economic conditions and resulting fluctuations in real estate values. However, the properties securing the Association's commercial real estate loans are varied and management monitors the performing status of such loans on a regular basis. As a general rule, the Association avoids financing certain special purpose real estate loans, such as mortgages on restaurants or hotels, to mitigate the risks in the portfolio. Because commercial real estate loans by nature have higher credit risk factors and the Company's commercial real estate loans have individually higher balances than other types of loans within its portfolio, the Company has elected to utilize credit quality factors that apportion a greater percentage of its loan loss allowance to commercial real estate loans. The Association also originate loans for area churches and utilizes credit quality factors that are slightly less than those for other forms of commercial real estate because Management has determined that the credit risks for churches is somewhat less based upon ownership consideration and predictable revenue streams.

The Association originates loans to custom builders that are secured by non-owner occupied properties. These loans are typically made to borrowers who are well known to the Association, are active in the community and the construction industry, and have a proven track record of successfully managing such ventures. Construction loans are underwritten using independent appraisal reviews, analysis of cost estimates, and examination of the borrower's financial position. In addition, construction loans are typically based upon estimates of cost and value associated with a completed project, and those estimates may vary from initial projections. Construction loans also involve the disbursement of funds as the project progresses and repayment is normally contingent upon the success and sale of the completed project. In certain instances, the construction loan involves lesser risk if the project is a presale or will ultimately be occupied by a borrower who intends to permanently finance the project through the Association. Construction loans are closely monitored by on-site inspections and are typically considered to have a higher credit risk than other types of real estate loans due to the ultimate repayment being sensitive to interest rate movements, the volatility of residential real estate markets, the status of the general economy, and the availability of permanent financing.

The Association also originates land loans to both speculative investors and owners who have held tracts of land for considerable periods of time. Land loans involve a greater degree of risk because the collateral for these types of loans is highly sensitive to the health of both the general economy and the local real estate markets. Speculative investors in land often have a short term perspective with an intent to hold the property for resale. Because land prices are often volatile, the financial strength of the borrower irrespective of the collateral value becomes more critical, as does the purpose of the land loan. Loans to land owners that have held the property for years and intend to do so for the foreseeable future are somewhat less risky than loans made to purchase land by investors whose intent is to develop or resale the property. The Association's underwriting standards for land allow for little deviation from stated policies and often the Association limits or suspends this type of lending depending on economic and market risk factors outstanding at the time.

The Association originates consumer loans in the form of home equity credits. To monitor and manage consumer loan risk, policies and procedures are developed and modified as needed. These controls, coupled with relatively small loan amounts spread across many individual borrowers, minimizes risk.

The loan credit quality indicators for construction, land, and commercial real estate loans are developed through the review of individual borrowers on an ongoing basis. Each of these borrowers with an exposure greater than $750,000 is evaluated at least annually and more frequently if the credit relationship becomes troubled. The indicators represent the ratings for loans as of the dates presented based upon the most recent assessment performed. None of the classified loans shown below were considered non-performing as of the dates indicated. The credit quality indicators are defined as follows:

- Unclassified/Pass: An unclassified loan is not adversely classified because it does not display any of the characteristics for adverse classification.
- Special Mention: A special mention asset has potential weaknesses that deserve Management's close attention. If left uncorrected, such potential weaknesses may result in deterioration of the repayment prospects or the loan's collateral position in the future. Special Mention assets are not adversely classified and do not warrant adverse classification.
- Substandard: A substandard asset is typically inadequately protected by the current net worth, paying capacity, or the collateral pledged. Substandard assets generally have well defined weaknesses that may jeopardize the orderly liquidation of the debt with the distinct possibility of loss if the deficiencies are not corrected. The Company also categorizes otherwise performing speculative residential construction loans as substandard if the collateral property has been completed but remains unsold after one year.

The following table shows all loans classified by credit quality indicators for the years ended September 30, 2021 and 2020:

For Year Ended September 30, 2021:	Unclassified	Special Mention	Substandard	Total
Single family, one-to-four units	$ 35,184,550	$ 158,000	$ -	$ 35,342,550
Multifamily, residential	984,150	-	-	984,150
Commercial real estate	6,014,750	-	-	6,014,750
Churches	5,985,800	-	-	5,985,800
Land	5,621,900	240,700	-	5,862,600
Residential construction	12,366,300	-	-	12,366,300
Commercial construction	617,400	-	-	617,400
Equity line mortgages	2,261,250	-	-	2,261,250
Loans on deposit accounts	423,900	-	-	423,900
	$ 69,460,000	$ 398,700	$ -	$ 69,858,700

For Year Ended September 30, 2020:	Unclassified	Special Mention	Substandard	Total
Single family, one-to-four units	$ 34,392,400	$ 163,650	$ -	$ 34,556,050
Multifamily, residential	869,050	-	-	869,050
Commercial real estate	6,733,250	-	-	6,733,250
Churches	3,236,800	-	-	3,236,800
Land	5,876,000	230,000	-	6,106,000
Residential construction	14,712,100	-	-	14,712,100
Equity line mortgages	1,891,000	-	-	1,891,000
Loans on deposit accounts	513,300	-	-	513,300
	$ 68,223,900	$ 393,650	$ -	$ 68,617,550

The Association does not accrue interest on loans past due 90 days or more and interest on certain other loans where collection is in doubt. Such interest is removed from income through the establishment of a reserve for uncollected interest. Interest income is subsequently recognized only to the extent cash payments are received in excess of principal amounts due. At September 30, 2021 and 2020 there were no loans past due 90 days or more and no reserves established for uncollected interest.

When a loan becomes uncollectible, the loan will be charged down or charged off against the allowance for loan losses. Mortgage loans are charged-off or written down to fair value when a loan becomes troubled and it is doubtful that the collateral value is sufficient to cover the outstanding principal. The determination is made prior to foreclosure when a loss confirming event occurs, such as a bankruptcy, or at the date of foreclosure when the Association takes control of the collateral property.

The following table provides an aged analysis of all outstanding loans by loan class at September 30, 2021 and 2020:

At September 30, 2021:

	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Loans	90 Days or More Past Due and Accruing
Single family, 1-4 units	$ -	$ -	$ -	$ 35,342,550	$ 35,342,550	$ -
Multifamily, residential	-	-	-	984,150	984,150	-
Commercial real estate	-	-	-	6,014,750	6,014,750	-
Churches	-	-	-	5,985,800	5,985,800	-
Land	18,900	-	18,900	5,843,700	5,862,600	-
Residential construction	-	-	-	12,366,300	12,366,300	-
Commercial construction	-	-	-	617,400	617,400	
Equity line mortgages	-	-	-	2,261,250	2,261,250	-
Loans on deposits	-	-	-	423,900	423,900	-
	$ 18,900	$ -	$ 18,900	$ 69,839,800	$ 69,858,700	$ -

At September 30, 2020:

	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Loans	90 Days or More Past Due and Accruing
Single family, 1-4 units	$ -	$ -	$ -	$ 34,556,050	$ 34,556,050	$ -
Multifamily, residential	-	-	-	869,050	869,050	-
Commercial real estate	-	-	-	6,733,250	6,733,250	-
Churches	-	-	-	3,236,800	3,236,800	-
Land	-	-	-	6,106,000	6,106,000	-
Residential construction	-	-	-	14,712,100	14,712,100	-
Equity line mortgages	-	-	-	1,891,000	1,891,000	-
Loans on deposits	-	-	-	513,300	513,300	-
	$ -	$ -	$ -	$ 68,617,550	$ 68,617,550	$ -

A loan is considered impaired when, based on current information and events, it is probable that the Association will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement unless the delinquency is considered temporary. An allowance is recorded if the present value of the loan's future cash flows, discounted using the loan's effective interest rate, is less than the carrying value of the loan. An impaired loan can also be valued at its fair value in the market place or on the basis of its underlying collateral if the loan is primarily collateral dependent. If foreclosure is imminent, and the loan is collateral dependent, the loan is valued based upon the fair value of the underlying collateral. Impaired loans, or portions thereof, are charged off when deemed uncollectable. The Association had no impaired loans at September 30, 2021 and 2020. In addition, there were no loans which were considered troubled debt restructurings in 2021 or 2020. During the spring of calendar year 2020, Federal regulators issued interagency guidance that permitted institutions to provide temporary COVID-19 relief to those borrowers who were current in their payments but were negatively impacted by the pandemic. Such relief came in the form of deferral of interest or both interest and principal for a limited period of time, typically three to six months. The guidance specifically stated that such loans were not considered to be impaired or a troubled debt restructuring. The Association provided relief to certain borrowers who requested such consideration and met the requirements under the guidance. At September 30, 2021 and 2020, modified loans totaling $5.4 and $5.8 million, respectively, remain outstanding but all such loans returned to normal payment status in September of 2020 and none were delinquent at September 30, 2021. The Association will continue to monitor these loans for any future impairment.

Note 4. Related Party Loans

Shareholders of the Company with 10% or more ownership and officers and directors, including their families and companies of which they are principal owners, are considered to be related parties. In management's opinion, these loans and transactions were in the ordinary course of business and on the same terms as those for comparable loans and transactions with non-related parties. Loan transactions with related parties during the years ended September 30, 2021 and 2020 were as follows:

		2021		2020
Beginning balance	$	77,950	$	80,800
New loans		-		-
Repayments		(3,600)		(2,850)
Ending balance	$	74,350	$	77,950
Maximum balance during the year	$	77,950	$	80,800

Note 5. Property and Equipment

Property and equipment at September 30, 2021 and 2020 are summarized as follows:

		2021		2020
Land	$	20,950	$	20,950
Office buildings and improvements		657,500		657,500
Furniture and fixtures		305,200		392,750
		983,650		1,071,200
Less accumulated depreciation		(700,650)		(762,150)
	$	283,000	$	309,050

Note 6. Foreclosed Real Estate

The Company had no foreclosed assets or related expense in 2021 and 2020. At September 30, 2021 and 2020, the Company had recorded a $318,100 deferred gain from the sale of a foreclosed property during 2014 that was financed by the Company. The deferred gain will be recognized in income after the loan has been repaid and all other aspects of the earning process have been deemed complete. At September 30, 2021, the loan was current and performing according to the terms of the loan agreement.

Note 7. Bank Owned Life Insurance

The Company has entered into Life Insurance Endorsement Method Split Dollar Agreements with certain current and past employees of the Association. Under the agreement, upon death of the insured individual, the Company first recovers the cash surrender value of the contract and then shares the remaining death benefits from the insurance contracts, which are written through two different carriers, with the designated beneficiaries of the insured individual. The death benefit to the insured individual is limited to $25,000 each. The Company, as owner of the policies, reserves the right to terminate the agreements at any time and retains an interest in the life insurance proceeds and a 100% interest in the cash surrender value of the policies. The Company paid an initial single premium of $1.0 million which is accounted for as cash surrender value and reported as “Bank owned life insurance” in the Company’s consolidated statements of financial condition. Increases in the surrender value of the policies are accounted for as other non-interest income. For 2021 and 2020 the increase amounted to $47,850 and $47,500, respectively.

Note 8. Deposits

Deposits at September 30, 2021 and 2020 consisted of:		2021		2020
Passbook accounts	$	4,394,750	$	3,188,400
MMDA accounts		32,494,000		29,529,200
NOW accounts		4,387,100		3,929,800
Certificate of deposit accounts		33,660,350		37,944,250
Noninterest-bearing accounts		7,797,350		5,418,800
	$	82,733,550	$	80,010,450

Certificate of deposit accounts mature as follows at September 30, 2021:

Matures:		
2022	$	21,919,350
2023		5,891,050
2024		2,315,200
2025		2,343,400
2026		1,191,350
	$	33,660,350

Certificate of deposit accounts at September 30, 2021 with a minimum denomination of $250,000 mature as follows:

Maturity Period:		
Within three months	$	1,467,900
After three months but within six months		552,100
After six months but within twelve months		1,042,600
After twelve months		2,412,200
	$	5,474,800

Note 9. Employees and Directors Benefit Plans

The Association has a 401k plan which covers substantially all employees. The Association matches employee contributions up to 10% and pays the administrative cost of the Plan. Employer contributions to the Plan amounted to $84,050 and $81,950 during 2021 and 2020, respectively. Administrative Plan expense amounted to $6,950 and $6,400 during 2021 and 2020, respectively.

The Association has a non-qualified noncontributory retirement plan covering its directors. Under the plan agreement, upon retirement and having reached the age of 65, directors will receive an undiscounted lump sum payment equal to $50,000. Expense is accrued over the expected service years for each director up to the age of 65. Other stipulations and limitations based on years of service, death and disability, change of control, and early termination apply. Expense associated with the plan amounted to $8,400 and $8,600 in 2021 and 2020, respectively. At September 30, 2021, the Association had accrued $261,500 for this retirement plan obligation and the liability is reported in “Accounts payable and accrued expenses” in the consolidated statement of financial condition.

Note 10. Employee Stock Ownership Plan

The Association has an Employee Stock Ownership Plan (“ESOP”) to benefit substantially all employees. As a part of the Association’s initial public offering in April 1996, the ESOP purchased 41,200 shares of common stock with the proceeds from a loan received from a third party financial institution. The Association made quarterly contributions to the ESOP in amounts sufficient to allow the ESOP to make its scheduled principal and interest payments on the note. The note matured in March 2003. The Association recorded expense based upon the fair value of the shares allocated to plan participants each year. The difference between the cash contributions and the amount expensed was credited or charged to additional paid-in capital. Because all remaining shares under the plan were allocated to participants during 2003, the Company’s current expense is only associated with administration of the plan which amounted to $2,050 and $2,000 in 2021 and 2020, respectively.

The ESOP has a put option which requires the Company to repurchase its common stock from participants in the ESOP who elect to receive cash in exchange for their common stock. The Company records a liability for the maximum possible cash obligation to redeem the shares, which is the fair value of such shares. The liability for the put option at September 30, 2021 was $92,750 based upon the market price of the Company’s shares at that time. The liability for the put option will fluctuate based upon the fair value of the shares with the resulting increase or decrease reflected as change to retained earnings.

Shares of the Company held by the ESOP at September 30, 2021 and 2020 are as follows:

	2021	2020
Shares originally held by the ESOP	41,200	41,200
Shares released to retired participants	(36,255)	(36,255)
Shares released for allocation and outstanding at year end	4,945	4,945
Fair value of outstanding ESOP shares	$ 92,750	$ 70,700

Note 11. Income Taxes

At September 30, 2021 and 2020 retained earnings contain $1,434,000 in tax related bad debt reserves for which no deferred income taxes have been provided because the Association does not intend to use the reserves for purposes other than to absorb losses. The balance represents the Association's bad debt reserves at September 30, 1988 and the unrecorded deferred income taxes amount to $329,800. If amounts which qualified as bad debt deductions are used for purposes other than to absorb losses or adjustments arising from the carryback of net operating losses, income taxes may be imposed at then existing rates.

Deferred income taxes consist of the following components as of September 30, 2021 and 2020:

	2021	2020
Deferred tax assets:		
Loan loss allowances	$ 329,900	$ 329,900
Health insurance accrual	62,200	64,900
Retirement plan accrual	13,400	11,450
Deferred gain on sale of foreclosed assets	73,150	73,150
	478,650	479,400
Deferred tax liabilities:		
Excess accumulated tax depreciation	25,100	28,800
Bad debt recovery	17,250	17,250
Unrealized net appreciation, investments	50	3,350
	42,400	49,400
Deferred tax assets, net	$ 436,250	$ 430,000

It is management's opinion that realization of the net deferred tax asset is more likely than not based on the Company's history of taxable income and estimates of future taxable income.

Income tax expense differs from the federal statutory rate of 21.0% as follows:

	2021	2020
Statutory federal income tax rate	21.00 %	21.00 %
State income taxes, net of federal benefit	1.93	1.98
Nontaxable income from bank owned life insurance	(0.73)	(0.77)
Other changes	0.16	(0.10)
Effective tax rate	22.36 %	22.11 %

Note 12. Capital

Concurrent with the reorganization in 1996, the Association established a liquidation account equal to its net worth as reflected in its statement of financial condition used in its final offering circular. The liquidation account is maintained for the benefit of eligible deposit account holders and supplemental eligible deposit account holders who continue to maintain their deposit accounts in the Association after the reorganization. Only in the event of a complete liquidation will eligible deposit account holders and supplemental eligible deposit account holders be entitled to receive a liquidation distribution from the liquidation account adjusted for transactions since the reorganization.

Dividends paid by the Association to the Company subsequent to the reorganization cannot be paid from this liquidation account. Subject to applicable law, the Boards of Directors of the Company and the Association may each provide for the payment of dividends. Future declarations of cash dividends, if any, by the Company may depend upon dividend payments by the Association to the Company. Subject to regulations promulgated by the OCC, the Association will not be permitted to pay dividends on its common stock if its net worth would be reduced below the amount required for the liquidation account or its minimum regulatory capital requirements.

In addition, as an institution which is considered well capitalized under the OCC's Prompt Corrective Action regulations, the Association may pay a cash dividend to the Company, with prior notification to the OCC and the Federal Reserve, if the total amount of all capital distributions (including the proposed distribution) for the applicable calendar year does not exceed the Association's net income for the year plus retained net income (net income minus capital distributions) for the preceding two years. However, the OCC and the Federal Reserve retain the right to deny any capital distribution if it raises safety and soundness concerns.

The Company and the Association are subject to the capital requirements established by the Federal Reserve and the OCC. Community banks who are considered well capitalized with total consolidated assets of less than $10 billion and who also meet certain other limitations can opt for a simplified tier 1 minimum community bank leverage ratio of 9.0% (the "Community Bank Leverage Ratio"). These community banks, including the Company, who opted to adopt the community bank leverage ratio and continue to meet its requirements are considered to have met the well-capitalized requirements under the FDIC Act and are no longer required to calculate and report on the various risk based capital ratios.

The Company's capital requirements and ratios are presented below:

	Actual Regulatory Capital		**To Meet PCA Well Capitalized**	
	Amount	Ratio	Amount	Ratio
2021				
Community Bank Leverage Ratio	$ 26,510,950	24.00%	$ 9,943,600	9.00%
2020				
Community Bank Leverage Ratio	$ 26,249,700	24.43%	$ 9,670,650	9.00%

The Company has an ongoing stock repurchase program authorizing the Company to repurchase its common stock, limited only by the regulatory requirements described above and the available cash held solely by Wake Forest Bancshares, Inc. At September 30, 2021 the Company had liquidity to purchase up to an additional $882,700 of its outstanding common stock. The repurchases are made through its transfer agent or registered broker-dealers from shareholders in open market purchases at the discretion of Management. The Company intends to hold the shares repurchased as treasury shares, and may utilize such shares to fund stock benefit plans or for any other general corporate purpose as permitted by applicable law. Through September 30, 2021, the Company had repurchased 183,902 shares of its common stock. The program continues until terminated by the Board of Directors.

Note 13. Concentration of Credit Risk and Off-Balance-Sheet Risk

The Association is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and the undisbursed portion of construction loans. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the statement of financial condition. The contract or notional amounts of those instruments reflect the extent of involvement the Association has in particular classes of financial instruments. The Association's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual notional amount of those instruments. The Association uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

At September 30, 2021, the Association had outstanding loan commitments amounting to $1,509,250. The un-disbursed portion of construction loans amounted to $16,729,650 and unused lines of credit amounted to $4,873,250 at September 30, 2021. The Association evaluates each customer's credit worthiness on a case-by-case basis. Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if deemed necessary by the Association upon extension of credit, is based on management's credit evaluation of the customer. Collateral held is the underlying real estate.

Note 14. Mutual Holding Company Financial Data

The MHC owns 57.8% of the Company and is registered as a savings and loan holding company and is subject to regulation, examination, and supervision by the Federal Reserve. A summary of the condensed financial statements of the MHC follows:

Wake Forest Bancorp, MHC
Condensed Statements of Financial Condition
September 30, 2021 and 2020

	2021	2020
Assets:		
Cash and cash equivalents	$ 113,950	$ 123,700
Accrued dvidends receivable	63,500	57,150
Investment in Wake Forest Bancshares, Inc.	14,289,900	13,825,850
Refundable income taxes	550	500
Total assets	$ 14,467,900	$ 14,007,200
Liabilities:		
Accounts payable and accrued expenses	$ 22,300	$ 55,600
Equity:		
Capitalization by Wake Forest Federal	106,350	106,350
Equity in Wake Forest Bancshares, Inc.	3,854,700	3,854,700
Retained earnings	10,484,550	9,990,550
Total equity	14,445,600	13,951,600
Total liabilities and equity	$ 14,467,900	$ 14,007,200

Wake Forest Bancorp, MHC
Condensed Statements of Income
For the Years Ended September 30, 2021 and 2020

	2021	2020
Revenues:		
Interest income	$ 200	$ 800
Equity in earnings of subsidiary	718,100	676,000
Total income	718,300	676,800
Expenses:		
Accounting and tax expense	35,850	32,050
Directors' fees	139,600	137,900
Other	48,850	46,050
Total expense	224,300	216,000
Net income	$ 494,000	$ 460,800

Wake Forest Bancorp, MHC
Condensed Statements of Cash Flows
For the Years Ended September 30, 2021 and 2020

	2021	2020
Cash Flows from Operating Activities:		
Net income	$ 494,000	$ 460,800
Equity in earnings of Wake Forest Bancshares, Inc.	(718,100)	(676,000)
Cash dividends paid	247,700	222,250
(Increase) decrease in refundable income taxes	(50)	650
(Decrease) increase in accounts payable and accrued expenses	(33,300)	39,700
Net cash provided by (used in) operating activities	(9,750)	47,400
Cash and cash equivalents- beginning	123,700	76,300
Cash and cash equivalents- ending	$ 113,950	$ 123,700

Note 15. Parent Company Only Financial Data

The condensed financial statements of Wake Forest Bancshares, Inc. for the periods indicated follows:

Condensed Statements of Financial Condition
September 30, 2021 and 2020

Assets:		2021		2020
Cash and cash equivalents	$	882,700	$	1,397,950
Accrued dividends receivable, Wake Forest Federal		107,000		98,800
Investment in Wake Forest Federal		25,623,600		24,850,400
Other assets		800		3,050
Total assets:	$	26,614,100	$	26,350,200
Liabilities and Equity:				
Accrued dividends payable	$	107,000	$	98,800
Total liabilities:		107,000		98,800
Common stock		12,550		12,550
Additional paid-in capital		14,510,850		14,510,850
Retained earnings		15,048,800		14,275,650
Treasury stock acquired		(3,065,100)		(2,547,650)
Total equity		26,507,100		26,251,400
Total liabilities and equity	$	26,614,100	$	26,350,200

Wake Forest Bancshares, Inc.
Condensed Statements of Income
For the Years Ended September 30, 2021 and 2020

		2021		2020
Interest income	$	2,150	$	9,800
Equity in earnings of Wake Forest Federal		1,235,600		1,164,800
Other expense, including income tax expense		(2,200)		(3,750)
Net income	$	1,235,550	$	1,170,850

Wake Forest Bancshares, Inc.
Condensed Statement of Cash Flows
For the Years Ended September 30, 2021 and 2020

Cash Flows from Operating Activities:		2021		2020
Net income	$	1,235,550	$	1,170,850
Equity in earnings of Wake Forest Federal		(1,235,600)		(1,164,800)
Dividends received from Wake Forest Federal		436,000		395,650
Increase in accrued dividends receivable		(8,200)		(10,650)
Decrease in other assets		2,250		1,900
Net cash provided by operating activities		430,000		392,950
Cash Flows from Financing Activities:				
Treasury stock acquired, net of proceeds from issuances		(517,450)		(69,900)
Increase in accrued dividends payable		8,200		10,650
Increase (Decrease) in income taxes payable		-		(1,700)
Dividends paid		(436,000)		(395,650)
Net cash used in financing activities		(945,250)		(456,600)
Increase (Decrease) in cash		(515,250)		(63,650)
Cash and cash equivalents- beginning		1,397,950		1,461,600
Cash and cash equivalents- ending	$	882,700	$	1,397,950

WAKE FOREST BANCSHARES, INC.
COMMON STOCK INFORMATION

The Company's stock (previously as Wake Forest Federal Savings & Loan Association) began trading on April 3, 1996. There are 1,070,046 shares of common stock outstanding (net of treasury shares) of which approximately 40% were held by individual stockholders at September 30, 2021. The MHC and the ESOP hold approximately 60%. There were approximately 125 stockholders of record (not held by brokers) as of September 30, 2021. The Company's stock is not actively traded, although the stock is quoted over the counter under the symbol "WAKE." The table below reflects the stock trading and dividend payment frequency of the Company's stock for the years ended September 30, 2021 and 2020, based upon information provided to management of the Company by certain securities firms effecting transactions in the Company's stock on an agency basis.

		Stock Price	
	Dividends	High	Low
2021			
First Quarter	$ 0.10	$ 19.57	$ 14.30
Second Quarter	0.10	19.95	17.92
Third Quarter	0.10	19.50	18.64
Fourth Quarter	0.10	19.25	18.50
2020			
First Quarter	$ 0.09	$ 19.75	$ 19.35
Second Quarter	0.09	20.90	13.00
Third Quarter	0.09	15.20	13.00
Fourth Quarter	0.09	15.20	13.60

Wake Forest Bancshares, Inc.
Corporate Information

OFFICERS

Renee H. Shaw
President, Chief Executive Officer

Carter S. Harrell
Senior Vice President, Secretary & Treasurer

Millie W. Hale
Vice President, Controller

Wanda R. Keith
Compliance Officer and Internal Auditor

Ann M. Watkins
Vice President

DIRECTORS

Anna O. Sumerlin
Chair of Board of Directors
Former CEO of the Company

Randy L. Bright
Funeral Director

Rodney M. Privette
Owner Operator of Insurance Agency

Renee H. Shaw
CEO of the Company

Michael A. Moss
Owner Operator of Surveying Company

Earl F. Shoaf
Founder/Operator of Electric Utility Supply Company

Sue E. Anthony
Owner Operator of Law Firm

John D. Lyon
Real Estate Management

Robert C. White
Former CEO of the Company and Partner in Accounting Firm

STOCK TRANSFER AGENT

Computershare
PO Box 505000
Louisville, KY 40233-5000
1-800-522-6645
www.computershare.com/investor

SPECIAL LEGAL COUNSEL

Brooks Pierce
2000 Renaissance Plaza
230 North Elm Street
Greensboro, NC 27401

CORPORATE OFFICE
302 Brooks St.
Wake Forest, NC 27587
www.wakeforestfederal.com

INDEPENDENT AUDITORS

Dixon Hughes Goodman LLP
Suite 500
2501 Blue Ridge Road
Raleigh, NC 27607

ANNUAL MEETING

The 2022 annual meeting of stockholders of Wake Forest Bancshares, Inc. will be held at 2:00 pm on Monday, February 21, 2022 at the office of Wake Forest Federal at 302 Brooks Street, Wake Forest, N.C.

[This page intentionally left blank.]

[This page intentionally left blank.]